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11/4/88

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MONTHLY PROJECTIONS
October 1988

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For Release: October 31, 1988

HOW SLOW IS ECONOMIC GROWTH ANYWAY?

Although the index of hours worked increased in September, these gains were the result of a rebound in the workweek. August's decline in the workweek appears to be associated with hot weather rather than underlying economic conditions. Therefore, the extension of the workweek in September has little economic implication. On the other hand, only a little more than 50% of all industries registered increased employment while the industrial production index was flat. After adjustment for inflation, consumption declined in September. Our monthly indicators show a slight dip in estimated GNP for September. Even growth in employment was distorted by an unusually large 115,000 increase in local government workers. Excluding government, employment grew less than 100,000.

Credit market conditions showed only fleeting signs of weakness. Some short-term interest rates rose, although yields on commercial paper declined slightly from the previous month. However, long-term interest rates eased modestly. More significantly, money growth came to a halt. If the Federal Reserve was following an interest rate target, as increasingly appears likely, reduced money demand would be reflected in slower money growth. Also, even though interest rates did not reveal the weakening state of the economy, flattening in the growth of monetary aggregates definitely did. There has been virtually no growth in checkable deposits during the past three months and only negligible growth in small time deposits.

Indeed, the 2.2% growth in third-quarter GNP is consistent with this pattern of weakening economic activity as the quarter progressed. Our estimates suggest that real GNP in September was below its third-quarter averages. Even if economic growth rebounds in the next few months, nonfarm GNP growth in the fourth quarter will be hardpressed to even reach third-quarter levels.

That economic activity has slowed significantly should require no dispute. What has caused the slowing requires some more substantial thought. Tough mone-

tary policy has received much of the credit for reduced expansion of economic activity. Certainly, interest rates began rising early in the spring. Those higher interest charges could have begun weakening activity by late summer (of course, the overt policy tightening by the Federal Reserve in August when they increased their discount rate almost certainly cannot be credited with slowing the economy as soon as September. Such a quick response to changes in monetary policy simply have not been empirically verified.) If monetary tightening is responsible for economic slowing, then further slowing may surface. At this point, there is little evidence that the monetary authorities have shifted their policy thrust. Of course, further restraint in an economy that no longer is moving forward could rapidly deteriorate into an unintended recession.

Already, inventories are beginning to grow rapidly at the retail and wholesale level. While most of the inventory expansion during the summer appears to be another increase in automobile inventories, more sinister interpretations of the rapid inventory growth can be made. Certainly, some unintended inventory investment has occurred in the summer months. Thus, weakness in the economy during the fall as manufacturers restore inventories to an appropriate balance with slowing orders and reduced sales potential is not out of the question.

A more likely candidate for the recent economic slowing is the reduction in export flows as previously shipped American goods were being accumulated in warehouses abroad. This inventory excess is not measured in national statistics. However, its impact is readily apparent in the significant slowing of export flows. During the third quarter, exports grew 8.4% after inflation adjustment, but these estimates are subject to significant revision. In particular, the export growth is heavily dependent upon a spurt in export activity during August. However, as all categories of both exports and imports spurted in that month, it is possible that better processing of data rather than increasing trade flows accounted for the spurt. If so, activity will fall back in September and the third-quarter estimates will be revised downward.

Some slowing also occurred as a result of reduced defense activity. Reductions in defense budgets over the past two years have finally begun to restrain the growth of defense expenditures. As these reductions are continuing, further weakness in the defense component of government should be anticipated in the next few quarters.

If slowing is the result of an adjustment of inventories abroad, the slowing should soon be coming to an end. Of course, continued weakness in defense spending and the impact of monetary restraint upon consumer spending should surface later this year or early next year. Therefore, no significant acceleration of economic activity should develop. Nevertheless, some signs of a rebound in activity soon should be apparent.

At the present time, the only evidence that the economy is doing a bit better than its slight decline in September is the drop to a cyclical low of 1.9% for the insured unemployment rate and a slight uptick in business loans.

On the other hand, of the six industries that previously had reached cyclical peaks, four have now experienced some easing in their capacity utilization. Only the aerospace industry as a result of strong orders for commercial aircraft and the chemicals industry continued to show significant utilization pressures from that original group. On the other hand, two new industry sectors, non-electrical machinery and fabricated metals, have also reached cyclical

peaks. If their experience follows that of the previous industries with capacity constraints, industrial materials associated with their activities will begin experiencing accelerated price pressures. On the other hand, price pressures in the textiles, paper, and plastics industries, all of which previously experienced significant pressures, should ease. The net effect upon industrial inflation should be little changed as a result of these utilization shifts.

Of course, excess production of oil remains the major industrial material pricing event. Oil prices still are expected to rebound during the heating season and then collapse as early as February. The collapse in prices could bring oil down to $10 to $11 per barrel by March. Then, some regrouping in oil prices is anticipated with prices firming as the next heating season approaches. On balance, we are assuming that OPEC will produce close to 20 million barrels per day next year and that such a supply can only be absorbed with prices in the United States averaging $14 per barrel. On average, this would be a drop from the $16 per barrel average that oil commanded in 1988.

Also, labor markets are becoming increasingly tight. While wage pressures remain remarkably subdued, the hourly earnings index is beginning to accelerate. Even the employment cost index is beginning to show some acceleration from a year ago. At the same time, the reduction in productivity gains that normally occurs near cyclical peaks appears to be developing again. Our preliminary estimates suggest that productivity fell 1% at annual rates during the summer months. Thus, a gradual increase in unit labor costs is developing. The combination of rising demand pressures in those industries with high utilization rates and gradually rising cost pressures for all industries should lead to higher inflationary pressures.

Of course, the decline in oil prices will offset these normal upward pressures early in 1989 if our analysis is correct. By mid-year, however, inflationary pressures in excess of 5% should reappear. That would be the time when Federal Reserve restraint again would develop. Interest rates then would move higher and economic activity once again would slow.

Quarterly Profile of GNP

	1988-2	1988-3	1988-4	1989-1	1989-2	1989-3	1988 Annual	1989 Annual
Real:	3.0	2.2	2.2	3.8	3.2	1.7	3.8	2.9
Price:	5.5	4.4	4.0	3.7	4.0	4.5	3.3	3.8
Nominal:	8.7	6.7	6.3	7.7	6.3	6.1	7.2	6.8

Monthly Statistical Highlights for October 1988

Payroll employment +200,000; index of hours worked +0.2%; household employment +259,000; civilian unemployment rate 5.4%; personal income +0.6%; savings rate 4.2%; personal consumption +0.6%; retail sales +0.8%; auto sales 10.4 million units; housing starts -0.8%; housing permits -0.9%; construction expenditures -0.1%; business inventories +0.5%; orders for durable goods +1.3%; orders for nondefense capital goods +1.6%; industrial production +0.3%; CPI +0.3%; PPI -0.1%; consumption deflator +0.3%; leading indicators +0.3%; currency index -3.6%; equity index +3.1%; real GNP(AR) +2.7%; M1(AR) +2.8%; M2(AR) +2.2%.

Monthly Statistical Highlights for November 1988

Payroll employment +302,000; index of hours worked +0.2%; household employment +322,000; civilian unemployment rate 5.3%; personal income +0.6%; savings rate 4.2%; personal consumption +0.6%; retail sales +0.7%; auto sales 10.6 million units; housing starts +1.8%; housing permits +0.5%; construction expenditures +0.6%; business inventories +0.6%; orders for durable goods -0.6%; orders for nondefense capital goods -2.3%; industrial production +0.3%; CPI +0.3%; PPI +0.2%; consumption deflator +0.4%; leading indicators +0.2%; currency index -4.4%; equity index +3.4%; real GNP(AR) +4.3%; M1(AR) +4.7%; M2(AR) +7.4%.

Commentary

Employment - Reductions in initial unemployment claims continue to suggest more than normal expansion in employment for October. Thus, an increase in employment in the private sector of at least 260,000 is anticipated. On the other hand, the unusual spurt in government employment during August and September probably was the result of seasonal distortions. These distortions either will be adjusted by reducing the September estimates for government, causing further increases in employment for October, or by reversing the September estimates in the October survey. In either case, the level of October employment probably will be close to what we anticipate. However, if government is reversed rather than revised downward, the change in payroll employment for October will be less than normal, approaching only 200,000. Then, a continuation of relatively strong employment gains should occur in November, leading to a return to robust employment gains in that month.

It is now clear that a rebound in hours worked during September was merely the regaining of a normal workweek following an August aberration. That unusual behavior may have been the result of the heat wave that gripped the country during August survey week.

One factor suggesting less than normal employment gains ahead is the poor performance in productivity early in 1988. Such reductions in productivity usually suggest that overhiring has occurred and that slower growth in labor demand can be expected in the months ahead.

Personal Income and Outlays - Personal income grew slightly less than anticipated in September, but all of the weakness was the result of further declines in farm income. Apparently, neither crop insurance nor subsidies were distri-

buted in that month. In the remainder of the year, however, subsidies should increase significantly. As a result, personal income should begin growing sharply.

One component of personal income already growing sharply is the personal interest expense. There has been a spurt in short-term interest rates that clearly has added to property income. If interest rates now are to stabilize for the next few quarters, a slowing in property income gains should be anticipated. As a result, wage and salary growth probably will be growing faster than personal income gains over the next year.

Auto sales slipped early in October, as expected, but quick introductions of dealer inventories should cause a rebound in unit sales later in the month. A sharp increase in auto sales despite a reduction in units is the result of increased prices for new cars. Although the drought has substantially accelerated purchases of nondurable goods, especially foods, falling oil prices soon will cause the nondurable component to grow more slowly. Similarly, reduced energy prices will be reflected in the transportation services and utilities components of services expenditures. This should lead to slower growth in service spending than anticipated in our previous forecast. On balance, consumer spending is expected to grow a modest 2.0% after adjustment for inflation next year. This compares with a 2.4% rate of growth in the past six quarters, which is down from a 4.5% growth path in the first four years of this economic expansion. Clearly, consumer activity is no longer pulling this economy forward.

Construction - Our outlook on housing has changed very little in recent months. Slower gains in interest rates than originally expected lead to slightly higher activity for single-family homes in the fall and winter months than had been anticipated. When interest rates rise, however, single-family starts begin to fall significantly later in 1989. No recovery is expected for apartment construction over the next year. Growth in nonresidential construction is largely the result of warehouse and industrial expansion. Some lodging expansion also is anticipated. On the other hand, office buildings should continue to trend downward into 1989. The current outlook for construction is decidedly for less activity than was expected in our August forecast.

Of course, some of this slowing is the result of reduced growth in the construction cost index. This index has grown at an annual rate of less than 2% in the past five months and is expected to continue growing at only a slightly accelerated rate in the next year.

Business Activity - A rebound in business inventories in July along with larger than anticipated expansions in August have led to slightly higher inventory holdings than originally anticipated. However, manufacturing inventories remain behind anticipations. Most of the inventory expansion is currently occurring in durable retail activity. This largely reflects earlier shipments of new model cars than traditionally. At the present time, production schedules suggest that automobile makers desire this increased inventory and that little correction for inventory excesses are necessary at the present time.

Orders for durable goods have been unusually choppy in recent months as a result of aircraft orders. Some very large aircraft orders have swelled the indices, which then flow back toward normal when no unusual aircraft orders surface. As many aircraft companies already have ordered their next fleet, subsequent surges in orders for durable goods are not anticipated. On the other

hand, the computer industry is creating significant confusion by its recent battle over appropriate information-carrying technology. Uncertainties associated with these technological battles have led to reductions in computer orders. This issue probably will be resolved in the next few months and orders will again spurt. In the meantime, sluggishness in computer orders is beginning to be reflected in reduced activity and shipments as well.

Industrial production was flat as a result of a sharp decline in utility production following a summer heat wave. Autos were assembled at 7.4 million units and are expected to rise to assemblage rates approaching 8 million units in the fall. This should provide a significant area of strength to the industrial production index. In addition, continued 0.4% - 0.6% monthly gains in production for business equipment and modest increases in production of industrial materials assures continued growth in the industrial production index through the remainder of this year.

Defense shipments are expected to remain low during the fourth quarter and then gradually build during the first half of 1989. In real terms, there will be minimal increases in defense expenditures.

Prices - Because of the direct and indirect influences of falling oil prices, our inflation estimates all are growing at a slower rate than originally anticpated with the exception of the GNP deflator. The more rapid growth in the GNP deflator appears to be the result of shifting compositions from changing expenditures. Also, the current weakening of import prices has probably biased the GNP deflator upward. An upward bias in this deflator is expected over the next year. This would reverse the decidedly downward bias experienced by the deflator in the past two years.

Miscellaneous - Merchandise trade balances have been converted into the customs value for imports. As a result, the current expectations are not really comparable with the forecast. In fact, since the adjustment leads to about a $1 billion reduction in the trade balance, we are actually increasing our estimates of trade deficits. Obviously, the higher trade deficits than originally projected result in greater weakness in the dollar's value than previously expected. By next April, when our currency index is expected to reach its low of 87.7, the yen probably will be trading at 110 to the dollar while the German mark probably will be trading at 1.65. Although deficits do not grow sharply beyond that period of time, increasing interest rates in the United States as the Federal Reserve begins to fight inflation leads to the dollar's strength. Of course, such premature strengthening will stabilize trade balances, causing slowing in the growth of economic activity.

Our current estimates suggest that adjusted profits will rebound from their summer slump and reach a peak next March. As interest rates on long-term government bonds are expected to change very little over that period, these improving profits lead to improving market values for equities. Indeed, our estimates suggest a relatively strong equities market through most of 1989.

Falling oil prices should substantially reduce the inventory valuation adjustment over the fall and winter months. As a result, the quality of profits rises significantly. In addition, inventories do not generate substantial credit market pressures.

FINANCIAL MARKETS

This year's government deficit was $155.1 billion, up from slightly more than $150 billion a year ago. What is troubling about this result is the fact that economic activity during the budget year grew nearly 4%. Thus, the structural deficit appears to have worsened slightly during the year. As the economy grows more slowly next year, receipts will continue to slow. Indeed, the household sector will receive a significant tax reduction as marginal rates are reduced to 28%. As the corporate sector already is experiencing most of its offsetting tax increases, it appears that the 1986 tax reform package may not have been neutral but actually a slight tax cut. This appears to be why the structural deficit has not been improving despite significant restraint in defense spending. The evidence strongly suggests that growth will not be sufficient to resolve the deficit problems.

Government deficits may rise slightly during this period of reduced economic growth, but the deficits should again be trending downward in the spring and summer of 1989. Reduced payments for agricultural supports and reduced outlays for petroleum purchases should be largely responsible for this modest budgetary improvement. In addition, interest rates are not expected to change significantly, so the interest burden should not rise significantly. Thus, although the government probably will be placing increasing strain upon the credit markets, we can assume basic neutrality from their borrowing efforts.

The household sector will be gradually reducing housing purchases, slowing installment credit growth and increasing savings rates. All these factors lead to increased sources of funds to the credit markets, which would generally lead to reduced interest rate pressures. However, the movements, although in the right direction toward lowering interest rates, are not significant.

The corporate sector actually increased some inventory-related borrowings along with fixed investment borrowings during the spring and summer months. As a result, interest rate pressures intensified. If inventories are to be more moderately accumulated in the fall, as expected, and if fixed investment is to grow more slowly, then the corporate sector will need slightly less funds than originally expected. In addition, corporate profitability is expected to gradually improve. Thus, the generation of funds should grow slightly faster than the need for funds, leading to a slight moderation of interest rate pressures.

Some people have been concerned by the significant increase in low-quality corporate debt because of massive corporate restructuring. Obviously, that debt creates problems for that class of debt instrument, which may be growing more rapidly than the ability of traditional high-yield investors to absorb the additional paper. As a result, interest rates on junk bonds should rise relative to overall interest rates. In addition, increased credit risk associated with unexpected restructuring appears to be increasing the interest rates of all corporate issues. However, these interest rate adjustments appear to be relative to other debt instruments. At some point, the conversion of equity into debt must raise interest yields relative to the value of equity. Thus, a differential return between equities and corporate indebtedness should materialize. The net result would be higher interest rates and reduced equity financing costs. But this effect may be offset by the increased volatility and risk generated by the high leveraging of some corporations. At this time, there appears to be an argument suggesting that corporate restructurings are leading to higher interest rates than otherwise would prevail in the corporate sector; but the effects do not appear to be very large.

While the sources and uses of funds suggest that there will be a slight reduction in the domestic savings deficiency over the next year, it is not clear whether the savings imbalance will fall sufficiently to encourage foreigners to continue providing their savings at unchanged interest rates in the United States. The absence of further improvement in the trade balances suggests that foreign investors will increase their reluctance to provide savings in our country. If so, interest rates could rise slightly over the next six months. However, the strongest case probably is for a slight downward drift in long-term rates because of the reduction in inflationary pressures that are anticipated as long as oil prices are falling. Later next year, when the dollar comes under attack and inflationary pressures rise at nearly the same time, higher interest rates will be necessary to continue attracting funds from abroad. Indeed, the Federal Reserve is expected to raise the discount rate again before the end of next spring. These increased interest rate pressures should initially be reflected throughout the yield curve.

Equity Markets - The near-term outlook for equity values is favorable. Interest rates are expected to remain unchanged or actually trend down slightly. The current sluggishness in the domestic economy is expected to give way to renewed modest growth. Because oil prices will be falling, the inventory valuation will not be as dramatic an adjustment as earlier in the year. Thus, the quality of corporate earnings will rise. The one fly in the ointment is reduced attractiveness of American assets by foreign investors. This would suggest that the big name companies could begin to underperform the overall market. Nevertheless, our basic valuation formulas suggest that equity values could rise significantly over the next six months. The Dow Jones index should easily exceed 2200 in the next few months and probably could approach 2300 by spring. When interest rates begin rising, however, a slowing economy will begin to erode corporate profitability. At that time, equity values should be trending downward.

Some interest-sensitive securities should perform better than average in the near-term environment. This suggests that regional banks and utilities should receive attention. As the dollar weakens, however, some of the multinationals which have lagged behind market performance in recent months should again come to the fore. Of course, the industries which are beginning to feel capacity utilization pressures also should perform well. Thus, chemicals, fabricated metals, nonelectrical machinery, and commercial aircraft companies all should outperform the market in the next six months.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	105281	105281	125.1	125.1	114713	114713	5.4	5.4	178.0	178.0
May	105502	105489	124.4	124.4	114195	114195	5.6	5.6	178.6	178.7
June	105848	106057	125.3	125.4	115018	115018	5.3	5.3	178.5	178.6
July	106075	106271	125.6	126.4	115127	115059	5.4	5.4	179.3	179.3
August	106295	106440	125.9	125.5	115226	115180	5.4	5.6	180.1	179.6
September	106560	106695	126.1	126.0	114974	115328	5.3	5.4	180.8	180.4
October	106753	106895*	126.3	126.3*	115543	115587*	5.3	5.4*	181.3	180.8*
November	106900	107197	126.5	126.6	115881	115909	5.3	5.3	181.8	181.5
December	107048	107536	126.7	127.0	116220	116257	5.2	5.2	182.4	182.0
January 1989	107309	107790	127.0	127.3	116489	116533	5.1	5.1	183.2	182.6
February	107627	108081	127.4	127.6	116750	116810	5.0	5.1	184.0	183.3
March	107948	108344	127.7	127.9	117012	117093	5.0	5.0	184.8	183.9
April	108062	108541	127.8	128.1	117143	117327	5.1	4.9	185.3	184.6
May	108174	108729	128.0	128.3	117292	117543	5.0	4.9	185.9	185.3
June	108290	108851	128.1	128.4	117453	117677	5.0	4.8	186.4	186.0
July	108483	109029	128.3	128.6	117638	117890	4.9	4.8	187.2	186.6
August	108754	109142	128.6	128.7	117837	118035	4.9	4.8	188.0	187.3
September	109021	109245	128.8	128.8	118030	118172	4.9	4.9	188.8	188.0

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	3.996	4.001	2.394	2.394	89.5	97.9	3.352	3.358	3.263	3.260
May	4.014	4.021	2.407	2.408	152.4	151.7	3.434	3.442	3.282	3.290
June	4.042	4.045	2.425	2.428	149.8	133.9	3.463	3.465	3.313	3.331
July	4.064	4.071	2.440	2.452	145.3	141.0	3.475	3.487	3.329	3.346
August	4.087	4.083	2.453	2.457	140.2	132.4	3.483	3.497	3.343	3.365
September	4.110	4.103	2.466	2.471	127.0	147.5	3.488	3.513	3.358	3.366
October	4.132	4.127*	2.478	2.484*	134.3	148.0*	3.509	3.534*	3.375	3.386*
November	4.153	4.153	2.490	2.501	144.5	148.1	3.537	3.556	3.393	3.408
December	4.175	4.180	2.502	2.518	153.8	149.7	3.565	3.580	3.411	3.430
January 1989	4.192	4.197	2.521	2.533	158.5	155.7	3.590	3.602	3.431	3.446
February	4.231	4.224	2.543	2.551	154.3	156.7	3.605	3.626	3.451	3.469
March	4.270	4.249	2.565	2.566	148.3	158.5	3.621	3.647	3.472	3.489
April	4.286	4.275	2.574	2.582	149.4	162.9	3.641	3.667	3.492	3.504
May	4.298	4.301	2.584	2.597	143.7	166.9	3.656	3.688	3.512	3.521
June	4.311	4.325	2.593	2.611	136.8	172.4	3.672	3.710	3.533	3.538
July	4.339	4.348	2.610	2.625	139.4	172.9	3.691	3.730	3.552	3.557
August	4.368	4.374	2.627	2.639	139.3	174.4	3.710	3.752	3.570	3.578
September	4.396	4.399	2.645	2.652	140.4	177.2	3.729	3.773	3.588	3.596

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	3164.2	3161.3	442.3	442.6	1025.7	1025.7	1696.2	1693.1	2565.9	2562.5
May	3182.7	3190.9	445.0	447.4	1030.3	1038.2	1707.5	1705.3	2569.7	2574.3
June	3213.5	3231.5	453.6	459.3	1034.8	1046.0	1725.2	1726.1	2587.1	2600.3
July	3226.4	3245.3	450.9	454.4	1039.2	1053.0	1736.3	1737.9	2587.3	2600.0
August	3244.5	3263.4	454.5	454.8	1043.1	1059.6	1746.9	1749.0	2593.5	2608.1
September	3255.4	3264.1	455.4	451.7	1047.3	1060.0	1752.7	1752.4	2593.9	2595.8
October	3273.2	3283.7*	456.3	454.3*	1051.5	1064.7*	1765.4	1764.7*	2597.8	2601.1*
November	3290.8	3304.9	457.1	459.4	1056.1	1069.2	1777.6	1776.3	2601.4	2607.4
December	3308.7	3326.6	458.2	462.6	1061.0	1074.6	1789.5	1789.4	2605.3	2616.3
January 1989	3328.2	3342.0	459.5	462.0	1066.4	1078.9	1802.3	1801.1	2610.4	2619.3
February	3347.5	3364.4	460.6	465.3	1071.1	1084.9	1815.8	1814.2	2613.2	2626.2
March	3365.4	3383.0	461.7	467.1	1075.8	1090.6	1827.9	1825.3	2614.9	2630.4
April	3385.7	3398.0	461.9	466.9	1083.4	1093.9	1840.4	1837.2	2616.5	2632.5
May	3405.8	3414.5	461.5	467.4	1091.2	1098.2	1853.1	1848.9	2617.8	2635.5
June	3429.5	3430.3	464.7	466.2	1099.0	1103.6	1865.8	1860.5	2621.9	2637.2
July	3444.4	3449.2	461.0	469.8	1104.5	1107.6	1878.9	1871.8	2623.3	2640.5
August	3464.3	3469.1	462.9	471.0	1109.9	1113.8	1891.5	1884.3	2628.5	2645.1
September	3482.0	3486.7	464.2	470.3	1114.4	1119.6	1903.4	1896.8	2629.9	2647.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	131.72	131.72	20.85	20.85	10.5	10.5	81.30	81.30	29.57	29.57
May	132.05	132.83	20.95	20.93	10.3	10.3	81.77	82.42	29.33	29.49
June	132.77	133.62	20.85	21.09	10.6	10.6	82.23	82.91	29.69	29.62
July	132.82	134.34	20.91	20.86	10.4	10.8	82.58	83.59	29.33	29.89
August	133.73	134.18	20.68	20.79	10.8	10.6	82.89	84.16	30.16	29.23
September	134.06	133.66	20.64	20.87	10.8	10.7	83.22	84.14	30.20	28.66
October	134.40	134.70*	20.88	20.94*	10.5	10.4*	83.56	84.53*	29.96	29.23*
November	134.85	135.63	20.79	21.03	10.6	10.6	83.92	84.89	30.14	29.71
December	135.36	136.41	20.75	21.16	10.7	10.7	84.31	85.32	30.30	29.93
January 1989	135.94	136.68	21.21	21.21	10.5	10.6	84.74	85.66	29.99	29.81
February	136.44	137.53	21.03	21.37	10.6	10.7	85.12	86.14	30.29	30.02
March	136.93	138.18	21.06	21.45	10.6	10.7	85.49	86.59	30.38	30.14
April	137.56	138.31	21.38	21.58	10.5	10.6	86.09	86.85	30.09	29.98
May	138.13	138.81	21.49	21.65	10.4	10.6	86.71	87.19	29.93	29.97
June	139.11	139.11	21.57	21.76	10.5	10.5	87.33	87.62	30.21	29.73
July	139.14	139.82	21.55	21.70	10.1	10.7	87.77	87.94	29.82	30.18
August	139.78	140.35	21.57	21.68	10.2	10.7	88.20	88.43	30.01	30.34
September	140.28	140.83	21.79	21.89	10.1	10.6	88.56	88.89	29.93	30.05

Fore. = August Forecast
C.E. = Current Expectations
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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	1.584	1.584	1.093	1.093	1.449	1.449	402.7	396.2	348.2	344.3
May	1.384	1.393	0.996	1.004	1.436	1.436	407.1	398.5	350.2	345.3
June	1.454	1.465	1.098	1.092	1.489	1.493	408.5	395.7	350.6	342.8
July	1.526	1.477	1.105	1.075	1.443	1.420	408.8	398.3	350.3	343.4
August	1.481	1.431	1.073	1.068	1.392	1.464	409.0	396.1	349.9	341.7
September	1.448	1.453	1.050	1.050	1.365	1.399	408.6	401.6*	349.2	345.9*
October	1.459	1.441*	1.046	1.046*	1.372	1.386*	410.4	401.4	349.6	344.5
November	1.465	1.467	1.040	1.054	1.380	1.393	412.4	404.0	350.1	346.8
December	1.462	1.461	1.036	1.059	1.382	1.382	413.9	404.3	350.2	346.4
January 1989	1.458	1.459	1.035	1.065	1.365	1.385	414.4	405.0	349.7	345.3
February	1.450	1.459	1.040	1.062	1.350	1.371	416.8	406.1	350.8	345.3
March	1.446	1.443	1.031	1.051	1.354	1.362	418.4	407.0	351.0	345.2
April	1.440	1.435	1.026	1.029	1.343	1.343	420.2	406.4	351.6	343.5
May	1.443	1.439	1.020	1.037	1.345	1.350	420.6	406.7	351.1	342.9
June	1.437	1.431	1.014	1.028	1.350	1.344	420.3	408.1	349.7	342.9
July	1.409	1.415	1.001	1.007	1.317	1.348	422.5	408.0	350.3	342.0
August	1.402	1.389	0.996	0.995	1.296	1.316	423.9	407.0	350.3	340.3
September	1.396	1.399	0.990	0.991	1.301	1.319	425.3	407.8	350.6	339.8

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	128.3	126.5	79.1	77.7	195.3	192.0
May	134.8	129.8	78.9	78.3	193.4	190.4
June	135.9	129.6	79.4	78.0	193.2	188.1
July	136.4	129.7	78.9	79.2	193.5	189.4
August	136.9	127.8	78.8	77.5	193.3	190.8
September	136.5	129.4*	78.8	79.5*	193.3	192.7*
October	137.0	129.6	79.0	79.8	194.4	192.0
November	137.4	130.3	79.2	80.3	195.8	193.4
December	137.8	130.5	79.2	80.1	196.9	193.7
January 1989	138.6	131.1	79.6	80.4	196.2	193.5
February	139.8	130.7	80.1	80.7	196.9	194.7
March	141.1	131.5	80.5	81.1	196.8	194.4
April	142.0	132.2	80.9	80.8	197.3	193.4
May	141.5	132.0	81.2	81.2	197.9	193.5
June	140.3	132.5	81.5	81.4	198.5	194.2
July	142.4	133.3	82.1	81.5	198.0	193.2
August	143.3	133.2	82.8	81.8	197.8	192.0
September	144.2	133.9	83.5	82.2	197.6	191.7

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	340.9	340.9	117.27	117.27	33.49	33.49	31.07	31.07
May	343.1	340.1	115.10	115.37	31.50	31.52	31.76	31.67
June	344.9	342.0	125.23	125.44	34.57	35.46	31.98	31.82
July	346.3	343.8	118.46	116.11	31.86	36.21	32.07	32.01
August	348.8	345.6	119.63	122.73	32.15	38.71	32.17	32.34
September	350.2	347.3*	120.15	117.70	32.36	34.09	32.26	31.95
October	352.9	348.8	119.11	119.23*	32.53	34.65*	32.53	32.16*
November	355.1	350.3	120.43	118.51	32.93	33.84	32.67	32.35
December	357.3	351.9	121.62	118.26	33.46	33.92	32.82	32.63
January 1989	359.5	353.6	119.85	116.94	32.55	32.84	33.02	32.45
February	361.2	355.6	120.36	117.72	32.93	33.65	33.20	32.59
March	363.0	357.2	121.45	118.84	33.14	33.98	33.38	32.85
April	365.6	358.9	121.89	119.93	33.48	34.27	33.46	33.11
May	368.1	360.9	122.53	119.52	33.65	34.15	33.55	33.26
June	370.6	363.3	122.76	120.21	33.92	34.05	33.63	33.49
July	372.3	365.5	122.50	119.46	33.98	33.63	33.70	33.62
August	374.5	367.8	121.89	119.93	33.91	33.69	33.83	33.70
September	376.8	369.7	123.26	119.65	33.84	33.48	33.96	33.74

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	723.7	723.7	8.47	8.47	135.4	135.4	82.6	82.7
May	728.4	725.8	8.37	8.38	136.1	136.1	82.9	82.9
June	732.0	731.5	9.07	8.72	136.6	136.5	83.1	83.0
July	736.1	735.9	8.94	8.66	137.3	138.1	83.3	83.8
August	740.3	741.7	8.63	9.02	137.0	138.3	83.0	83.8
September	744.6	744.7*	8.65	8.74	137.6	138.3	83.2	83.6
October	748.7	748.4	8.70	8.62*	138.2	138.7*	83.4	83.7*
November	753.5	752.6	8.75	8.69	138.6	139.1	83.5	83.8
December	758.1	757.0	8.75	8.76	139.0	139.7	83.7	84.0
January 1989	761.9	761.7	8.83	8.81	139.5	140.3	83.8	84.2
February	765.7	767.0	8.89	8.80	140.0	140.7	83.9	84.3
March	768.5	770.9	8.95	8.85	140.5	141.3	84.1	84.5
April	773.6	774.6	9.15	9.03	141.1	141.6	84.2	84.5
May	781.0	779.9	9.02	9.00	141.3	141.9	84.2	84.5
June	788.5	785.9	8.96	9.13	141.5	142.0	84.1	84.4
July	793.4	791.7	9.11	9.10	141.6	142.3	84.0	84.4
August	796.0	796.7	9.19	9.11	141.7	142.5	83.9	84.3
September	798.5	800.8	9.26	9.16	141.6	142.6	83.7	84.2

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	117.2	117.2	107.0	107.0	105.6	105.6	120.1	120.5
May	117.5	117.6	107.4	107.4	106.1	106.1	120.6	121.0
June	117.9	118.0	107.8	107.8	106.5	106.5	121.0	121.4
July	118.3	118.5	108.2	108.3	106.9	106.7	121.4	121.9
August	118.8	119.0	108.7	108.9	107.3	107.1	121.8	122.2
September	119.3	119.4	109.2	109.3	106.3	106.9	122.3	122.7
October	119.7	119.8*	109.6	109.2*	107.5	107.2*	122.6	123.1
November	120.1	120.2	110.0	109.4	107.7	107.3	122.9	123.5
December	120.5	120.6	110.3	109.7	107.7	107.7	123.2	123.8
January 1989	121.0	121.2	110.8	110.3	108.3	108.3	123.7	124.2
February	121.6	121.6	111.3	110.6	108.9	108.6	124.3	124.6
March	122.0	122.0	111.6	110.9	109.5	109.0	124.9	125.1
April	122.7	122.4	112.2	111.2	110.1	109.4	125.4	125.4
May	123.4	122.9	112.8	111.5	110.7	109.8	125.8	125.9
June	124.1	123.4	113.4	111.8	111.3	110.2	126.2	126.3
July	124.6	123.8	113.8	112.2	112.0	110.7	126.7	126.8
August	125.2	124.3	114.3	112.6	112.5	111.1	127.1	127.2
September	125.8	124.7	114.8	113.0	111.6	110.6	127.5	127.8

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	123.3	123.4	109.3	109.3	115.5	115.5	133.3	133.4	115.6	115.1
May	123.9	124.0	109.4	109.5	116.1	116.2	133.8	134.1	116.2	115.4
June	124.2	124.3	109.9	109.9	116.4	116.3	134.3	134.5	116.5	115.4
July	124.7	124.8	110.1	110.1	116.8	116.9	134.8	135.1	116.7	116.0
August	125.1	125.1	110.3	110.4	117.1	117.1	135.4	135.5	116.9	115.9
September	125.5	125.8	110.4	110.6	117.4	117.9	136.0	136.1	117.0	116.1*
October	126.0	126.2*	110.9	110.8*	117.9	118.4*	136.5	136.6*	117.4	116.5
November	126.5	126.7	111.2	111.3	118.4	118.8	136.9	137.2	117.8	116.7
December	127.0	127.1	111.5	111.6	118.8	119.1	137.3	137.7	118.2	117.0
January 1989	127.5	127.8	111.7	111.8	119.5	119.5	138.1	138.2	118.5	117.3
February	128.1	128.2	111.9	112.1	120.0	120.0	138.8	138.8	118.8	117.6
March	128.7	128.6	112.1	112.3	120.5	120.5	139.5	139.4	119.2	117.9
April	129.4	129.0	112.4	112.6	121.4	120.8	140.1	140.0	119.5	118.3
May	130.1	129.5	112.7	112.8	122.5	121.2	140.7	140.6	119.8	118.6
June	130.8	130.1	113.0	113.0	123.6	121.8	141.3	141.1	120.2	119.0
July	131.3	130.6	113.3	113.3	123.8	122.4	142.0	141.7	120.6	119.3
August	131.8	131.2	113.6	113.6	124.0	122.9	142.7	142.3	121.0	119.6
September	132.4	131.7	113.9	113.8	124.2	123.5	143.4	142.9	121.3	120.0

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	-10.27	-8.51	192.8	192.5	4778	4783	3979	3969	-18.3	-23.3
May	-10.93	-8.88	192.6	191.1	4806	4826	3985	3988	-19.6	-28.6
June	-10.10	-11.06	194.9	193.7	4830	4860	3995	4003	-29.1	-30.5
July	-10.76	-10.48	194.0	192.7	4869	4888	4011	4010	-26.2	-27.2
August	-10.59	-11.12	194.5	193.4	4885	4900	4011	4010	-23.0	-23.7
September	-10.42	-10.14*	195.3	193.6*	4908	4915	4013	4006	-20.1	-18.5
October	-10.36	-9.73	194.7	194.2	4934	4943	4024	4015	-20.0	-13.4
November	-10.30	-9.46	194.0	194.5	4965	4976	4040	4029	-18.6	-11.6
December	-10.24	-9.27	193.8	193.7	4997	5005	4056	4043	-18.3	-12.9
January 1989	-9.56	-8.83	193.9	194.0	5034	5038	4070	4056	-19.7	-14.4
February	-9.27	-9.28	192.6	194.4	5065	5070	4075	4069	-21.2	-14.8
March	-8.86	-9.42	192.5	194.0	5097	5098	4081	4075	-22.8	-12.3
April	-8.96	-8.93	193.1	193.5	5128	5123	4089	4085	-27.3	-11.6
May	-8.94	-8.98	193.6	193.1	5159	5161	4101	4099	-30.5	-10.9
June	-8.90	-8.51	193.0	193.5	5189	5193	4112	4112	-33.1	-14.6
July	-8.98	-8.86	192.5	193.8	5220	5216	4120	4114	-31.5	-16.3
August	-9.15	-9.13	192.9	193.2	5241	5237	4124	4117	-30.0	-20.1
September	-8.92	-8.85	192.7	192.7	5262	5262	4127	4117	-28.5	-22.4

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	88.95	88.95	181.4	180.4	8.95	8.95	148.46	148.46
May	89.74	89.74	180.9	180.9	9.23	9.23	144.99	144.99
June	92.58	92.58	182.5	188.3	9.00	9.00	152.72	152.72
July	95.65	96.53	176.5	191.2	9.23	9.14	150.65	152.12
August	96.20	98.29	170.4	188.5	9.25	9.32	151.93	149.25
September	96.86	97.91	169.3	183.7	9.11	9.06	153.24	151.47
October	93.27	94.43*	170.5	184.8	9.22	8.92*	153.06	156.24*
November	89.42	90.28	173.3	188.2	9.53	8.73	151.47	161.58
December	92.41	88.35	176.2	193.1	9.86	8.68	150.16	165.77
January 1989	93.12	90.26	175.0	196.7	10.04	8.78	149.23	165.95
February	93.76	88.53	172.9	200.4	10.16	8.83	147.65	167.16
March	93.62	90.22	170.8	203.5	10.31	8.80	146.16	169.40
April	93.74	87.71	169.5	200.6	10.50	8.79	142.29	168.11
May	93.91	89.43	169.0	196.5	10.43	8.96	139.63	162.39
June	93.75	91.26	170.3	194.1	10.59	9.28	139.98	155.74
July	94.83	91.55	171.5	194.0	10.65	9.53	140.42	152.52
August	96.27	93.62	171.1	192.3	10.61	9.67	143.57	148.97
September	93.60	93.21	171.9	188.7	10.52	9.65	146.71	147.47

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	275.8	275.7	770.2	770.1	2991.9	2990.9	6.87	6.87	6.21	6.21
May	276.7	276.2	770.1	770.2	3003.7	3002.2	7.09	7.09	6.56	6.56
June	277.8	278.9	776.4	776.5	3018.1	3016.5	7.51	7.51	6.71	6.71
July	280.3	280.3	783.5	782.4	3028.9	3025.9	7.64	7.75	7.05	6.99
August	282.3	281.1	789.6	782.5	3043.5	3031.8	7.81	8.01	7.16	7.36
September	284.4	282.1	795.5	782.5	3058.2	3035.1	7.96	8.19	7.27	7.43
October	286.0	282.5*	799.4	784.3*	3076.3	3040.5*	8.10	8.25*	7.36	7.47*
November	287.2	283.5	802.6	787.3	3094.0	3058.7	8.16	8.22	7.42	7.43
December	288.4	284.6	803.7	790.9	3112.5	3080.1	8.22	8.18	7.48	7.40
January 1989	290.3	286.0	808.5	795.9	3133.4	3101.7	8.20	8.29	7.40	7.48
February	292.5	287.4	814.9	800.4	3151.2	3123.4	8.23	8.35	7.35	7.56
March	294.6	288.9	821.3	804.6	3169.4	3142.1	8.26	8.32	7.36	7.55
April	296.3	290.0	824.6	807.1	3185.2	3157.8	8.53	8.47	7.64	7.69
May	297.6	291.3	827.0	810.4	3207.2	3176.7	8.86	8.63	8.03	7.85
June	298.9	292.4	829.5	812.9	3228.9	3192.6	9.19	8.75	8.30	7.94
July	300.5	293.5	835.1	815.3	3246.5	3205.4	9.25	8.79	8.20	8.03
August	302.7	294.9	840.0	818.9	3262.7	3221.6	9.11	8.83	7.92	8.17
September	304.9	296.0	844.8	821.4	3278.8	3237.7	9.05	8.89	7.63	8.20

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	9.67	9.67	7.81	7.81	6.86	6.86	6.92	6.92	8.50	8.50
May	9.90	9.90	7.91	7.91	7.19	7.19	7.24	7.24	8.84	8.84
June	9.86	9.86	7.78	7.78	7.49	7.49	7.51	7.51	9.00	9.00
July	10.02	9.96	7.88	7.76	7.73	7.82	7.86	7.94	9.42	9.29
August	10.08	10.11	7.93	7.79	7.92	8.26	8.03	8.35	9.50	9.84
September	10.15	9.82	7.96	7.66	8.05	8.17	8.14	8.23	9.50	10.00
October	10.20	9.59*	8.01	7.52*	8.15	8.22*	8.26	8.32*	9.56	10.00*
November	10.23	9.74	8.00	7.50	8.22	8.16	8.35	8.25	10.00	10.00
December	10.26	9.70	8.03	7.45	8.30	8.12	8.39	8.19	10.00	10.00
January 1989	10.39	9.85	8.15	7.59	8.30	8.33	8.43	8.41	10.00	10.00
February	10.46	9.92	8.20	7.68	8.34	8.36	8.45	8.50	10.00	10.22
March	10.50	9.86	8.23	7.62	8.40	8.31	8.51	8.46	10.00	10.25
April	10.78	9.78	8.42	7.45	8.59	8.52	8.62	8.59	10.00	10.25
May	10.93	9.94	8.59	7.65	8.82	8.65	8.93	8.76	10.46	10.53
June	11.10	10.15	8.66	7.88	9.15	8.68	9.23	8.81	10.95	10.75
July	11.01	10.42	8.57	8.11	9.26	8.84	9.30	8.93	11.00	10.75
August	10.90	10.55	8.43	8.24	9.10	8.90	9.16	9.02	10.87	10.75
September	10.78	10.51	8.35	8.20	8.98	8.95	9.05	9.11	10.50	10.75

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.